



# *Native American Bank Banking the Unbanked*

Photograph: Dana Echohawk

The Fallon Paiute Tribe in Fernly, Nevada, had heard many reasons why banks could not provide a loan to buy back ancestral land. Tired of constant turndowns and delays, the tribe applied to the Native American Bank, NA. NAB not only understood the historical importance of the buyback, but also saw the economic opportunity that other banks had missed. After underwriting and credit approval, the Fallon Paiute closed on an NAB loan in July 2007. It was a win-win: The tribe obtained access to much-needed capital, and NAB added an earning asset to its balance sheet.

Being turned down by banks is a familiar story for many American Indian communities. Although the advent of gaming has brought wealth to a small subset of tribes, American



by Jon Swan

Indians remain at the bottom of most social statistics. The 2000 U.S. census showed the per capita income for on-reservation citizens to be \$7,942, much lower than the \$21,587 U.S. average.<sup>1</sup> Poverty rates by ethnicity showed American Indians and Alaska's on-reservation natives at 39 percent, compared with poverty rates of 9 percent for whites.

Although the overall reality is discouraging, positive trends are emerging. For example, reservations' \$7,942 per capita income in 2000 was 33 percent greater than the \$5,929 figure from 1990, whereas income growth for the U.S. population as a whole was only 4 percent.<sup>2</sup> (Interestingly, the American Indian per capita growth was the same on non-gaming and gaming reservations.<sup>3</sup>)





## Urgent Need for Capital

In the past, many U.S. Indian programs that were aimed at alleviating poverty were short-term and did little for communities' economic growth. Some programs, such as drug abuse prevention, were notorious for federal cuts that left participants in the middle of project milestones. It wasn't until the mid-1970s, when a new law gave the tribes oversight of most federal Indian programs, that there was a shift toward *sustainable* economic development.<sup>4</sup>

For tribes trying to access financial services, there have been other challenges, often the result of institutions' inadequate understanding of Indian Country. During the planning phase of Native American Bank, tribal representatives frequently mentioned that tribal deposits in financial institutions did not seem to be coming back to their reservations through lending or other financial services. Certainly, poverty played a role in the dearth of lending. Nevertheless, leaders maintained that banks' insistence on cash-secured loans made no sense, given that lack of cash was generally the reason tribes were trying to access debt markets in the first place.

Financial institutions cited their own reasons for the lack of lending. The

trust status of land bars a lending institution from seizing property in the event of a default, so one secondary source of repayment is not the option that it is off-reservation. Lending institutions also feared that tribes would claim sovereign immunity if a repayment dispute landed in court. As a result, many bankable transactions were never consummated. Tribes refused to waive their immunity; banks refused to advance money until such agreement was reached.

NAB's founders realized that many problems flowed from misunderstandings. For example, a waiver of immunity was indeed necessary if federally recognized tribes were the direct borrowers or guarantors, but some banks incorrectly assumed that it also applied to nontribal entities operating on Indian land. The founders saw those misunderstandings as an opportunity. They knew that plain-vanilla banking could work in Indian Country, and they wanted to prove it to tribes and to the world. They believed the ingredients just needed to be adjusted slightly to a flavor palatable to Indians.

## Creating a National Bank

There are nine American Indian banks today. The Native American Bank is the only one that is owned by multiple tribes and nationally focused.

In 2001, 21 tribal investors put together more than \$11 million to capitalize Native American Bancorporation, NAB's parent company. The investors varied from relatively poor tribes in the rural Rocky Mountains (Blackfoot and Chippewa Cree tribes) to the largest tribe in America, the Navajos in the Southwest. Connecticut's Mashantucket Pequot Tribal Nation was also a founding investor, and the New England-based Mohegan tribe was a minor founding shareholder. Backed by the \$11 million, NAB purchased what had been the first tribal bank, founded in 1987. That was Blackfeet National Bank of Browning, Montana.

From top: battered women's shelter on a reservation in South Dakota, financed by NAB; Native American entrepreneurs in Colorado opening a franchise of the Rocky Mountain Chocolate Factory; house built with NAB funding on the Blackfoot Reservation in Browning, Montana; Eastern Shoshone Tribe signs off on financing for a new water treatment plant in Wyoming. Photographs: Native American Bank

To tackle the lending issues, Native American Bank first had to secure government guarantees from the Bureau of Indian Affairs, the U.S. Department of Housing and Urban Development, the Small Business Administration, and the U.S. Department of Transportation. But the founders knew that the growth of the balance sheet would have more to do with understanding the who, what, where, and how of tribal economic development. So NAB hired people who either had grown up in Indian Country or had significant ties to it—people with a knack for tribal policy and history. The idea was that a staff with deep understanding of trust land, tribal court systems, and the like would offer a distinct competitive advantage.

The next challenge was to fund loan growth. Given that NAB was serving historically cash-strapped and cash-dependent communities, deposits lagged behind loan demand. Like other small and mid-size banks, NAB at first found it difficult to cover asset growth with core deposits.<sup>5</sup> American depositors in general had become interest-rate sensitive and were putting only 13 percent of household financial assets into banks' core deposits in 2000 (as opposed to 31 percent in 1985).<sup>6</sup>

Lack of deposits drove up the cost of capital for NAB, so employees began reaching out to large foundations and corporations, explaining that Native American Bank deposits were insured by the Federal Deposit Insurance Corporation, had competitive interest rates, and could yield both financial and social returns—a double bottom line.<sup>7</sup> The social reward was knowing that deposits were being lent to communities that needed access to capital the most. The outreach effort garnered significant results, including a \$1 million deposit from the Microsoft Corporation in 2004. (See “Native American Bank, Total Assets.”)

Although, like most de novo banks, NAB was unprofitable at first, it cleared \$516,000 in 2006. In 2007 it more than doubled that performance with over \$1.4 million in net income. Return on average

assets, a common metric for measuring bank performance, was a respectable 1.40 percent that year.<sup>8</sup> (See “Native American Bank, Net Income.”)

Located near Denver International Airport for accessibility, NAB is currently providing capital to Indian communities in the northernmost parts of Alaska, the plains of North Dakota, communities in New England, and more. As it continues to be profitable and to attract investors, it expects to increase its physical footprint in Indian Country. The success of the Native American Bank is one more proof that Indians themselves are the people best suited to reformatting Indian communities.

**Jon Swan**, a summer 2007 intern in the Federal Reserve Bank of Boston's credit, supervision, and regulation department, is currently a graduate student at Harvard Business School and Kennedy School of Government. A Chipewewa Cree, he joined the Native American Bank in 2003 as a banking trainee and left as an assistant vice president of commercial lending in 2006 to pursue graduate studies.

#### Endnotes

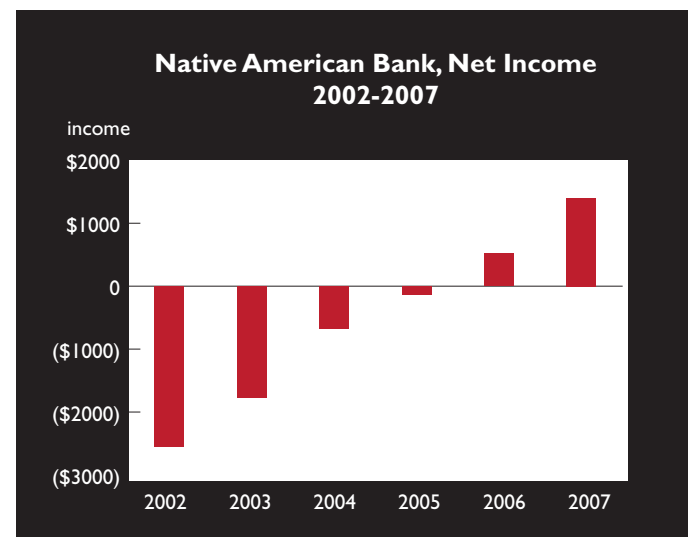
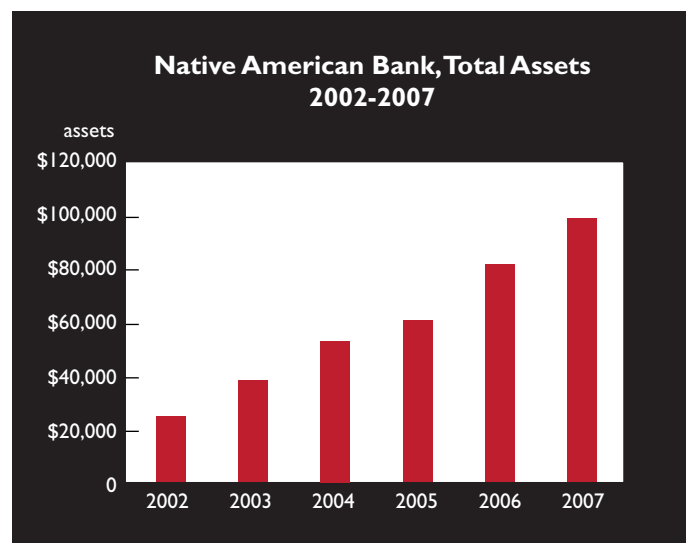
<sup>1</sup>Jonathan B. Taylor and Joseph P. Kalt, *American Indians on Reservations: A Databook of Socioeconomic Change between the 1990 and 2000 Censuses* (Cambridge, Massachusetts: Harvard Project on American Indian Economic Development, January 2005).

<sup>2</sup>Real numbers, adjusted for inflation.

<sup>3</sup>See <http://www.ksg.harvard.edu/hpaied/pubs/documents/AmericanIndiansonReservationsADatabookofSocioeconomicChange.pdf>.

<sup>4</sup>See PL 93-638 of the Indian Self-Determination and Educational Assistance Act.

<sup>5</sup>Deposits (including small-denomination time deposits, savings, and checking accounts) that are acquired in



a bank's natural market area count as a stable source of funds for lending because they have a predictable cost, imply a degree of customer loyalty, and are less interest-rate sensitive than short-term certificates of deposit and money market deposit accounts.

<sup>6</sup>James Harvey and Kenneth Spong, *The Decline in Core Deposits: What Can Banks Do?* (Kansas City: Kansas City Federal Reserve, 2001).

<sup>7</sup>With the advent of the Certificate of Deposit Account Registry Services (CDARS) program, NAB can offer FDIC Insurance on CDs up to \$50 million under unique tax IDs.

<sup>8</sup>From NAB's Uniform Bank Performance Report, published for the year ending December 31, 2007.

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).